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SUBJECT: New Socialist Countryside Budget Insufficient,
Says Policy Advisor

REF:QBEIJING 5009 and previous

¶1. (SBU) Summary: A Chinese policy advisor believes the allocated budget for the recently launched New Socialist Countryside initiative is woefully inadequate. While Central Government funding for rural programs is increasing, the allocation as a percentage share of the total budget remains relatively unchanged. The advisor noted that New Socialist Countryside expenditures are insufficient given the needs of rural residents and the number of ministries and levels of government that depend on the funding. End Summary.

¶2. (SBU) Zhang Xiaoshan, Director of the Rural Development Institute at the China Academy of Social Sciences (CASS) and a senior advisor to the Chinese leadership on rural policy, briefed Embassy-sponsored visitors from the Defense Orientation Conference Association (DOCA) on China's rural situation on June 6. During the briefing (also attended by Econoffs), Zhang introduced the New Socialist Countryside initiative and assailed insufficient funding for the program.

New Socialist Countryside: What Does the Budget Mean?

¶3. (SBU) Zhang noted that the Central Government's budget to support agriculture, rural areas, and farmers increased to RMB 339.7 billion (USD 42.5 billion) in 2006 from RMB 293.5 billion (USD 36.7 billion) in 2005 in order to support the 11th Five-Year Plan's New Socialist Countryside initiative, which aims to provide improved social services and infrastructure in rural areas. In 2004, expenditures on agriculture, rural areas and farmers were only RMB 262 billion (32.75 billion).

¶4. (SBU) While the rural budget increased by 12 percent in 2005 and 15 percent in 2006, however, Zhang lamented that the allocation as a percentage share of the total budget remains relatively unchanged, and in fact, declined between 2004 and 2005. According to Zhang, the Central Government's budget to support agriculture, rural areas, and farmers was 9.2 percent of the total Central Government budget in 2004, but that share fell to 8.8 percent in 2005. Likewise in 2006, the rural account's increase is comparable to the overall budget increase, and the change in the rural budget's percentage share of total expenditure

is therefore insignificant.

Officials' Rent-Seeking Behavior a Disservice to Farmers

15. (SBU) Zhang stated that an additional problem with the funding is that it primarily pays overhead costs rather than directly supporting farmers. Although rural residents have significant needs, including education, health care, clean water, and employment training, a disproportionate amount of the New Socialist Countryside's budget funds local government salaries for officials who may or may not be able to deliver services.

16. (SBU) Zhang emphasized that 16 or 17 Central Government ministries and several layers of local government (county, township, and village) ultimately depend on New Socialist Countryside expenditures, and these ministries and local governments unfortunately do not coordinate their efforts. Instead, officials seeking to maintain annual budget allocations engage in rent-seeking behavior, justifying their own bureaucracy at the expense of farmers. This phenomenon is a serious problem in western and central China where cash-strapped county governments (that no longer can depend on the recently eliminated agricultural tax) wait for trickle-down funding from Beijing.

Comment

17. (SBU) Zhang's views on the New Socialist Countryside's budget are similar to those of other observers. While the State-controlled media has trumpeted the Central Government's 2006 expenditures in the rural sector as

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increasing resources for a major policy initiative, impartial observers are quick to point out that the Central Government's overall budget expenditure has been increasing at an average of 17-18 percent in recent years, and the rural account should be viewed in that context. Moreover, regardless of budget outlays, it is nearly impossible to assess how much money the Central Government, much less provincial and local governments, actually is spending on the rural sector. End Comment.

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